

HART SCHAFFNER & MARX



Twenty-eighth Annual Report
November 30, 1938

HART SCHAFFNER & MARX

CHICAGO NEW YORK

New York, January 23, 1939

To the Stockholders of
Hart Schaffner & Marx

On behalf of your Board of Directors there is submitted the financial statement of your Company for the fiscal year ending November 30, 1938, together with the report of your auditors, Messrs. Price, Waterhouse & Company.

Sales of the parent company for the fiscal year showed a substantial decrease due to the general decline in retail consumer demand coupled with the fact that retailers were making an effort to reduce their inventories. Because of the lower volume, the operations of the parent company after providing for all expenses of the business, including a provision for Federal surtax of \$5,600.00, resulted in a loss of \$119,220.94 to which has been added the sum of \$185,915.85 to adjust the reserve against investments in capital stocks of certain subsidiary and affiliated companies, making the total loss carried to surplus \$305,136.79 for the year. This adjustment of the reserve against investments represents substantially the parent company's portion of the net losses of all of its subsidiary and affiliated companies for the year.

During recent years, the Company has maintained or improved the quality of its products without a corresponding advance in retail selling prices, and as a consequence it has operated on a narrow margin of gross profit. In a period of declining sales such as was encountered during the fiscal year just ended, a narrow margin of gross profit results in net operating losses as certain fixed expenses cannot be reduced correspondingly.

The ratio of current assets to current liabilities at November 30, 1938 shows a substantial improvement over the relative ratio at the close of the previous fiscal year. This improvement is due to reduction of inventories and receivables and application of a part of the proceeds to the payment of bank loans. The Company had no bank indebtedness at the close of the fiscal year and there is no indebtedness to banks at the present time.

Advance sales for Spring 1939 show a substantial increase in units over a year ago. The increase in dollars is less, due to lower average unit prices. Reorders during the latter part of the Fall 1938 season also showed an increase, which is an encouraging sign indicating that retail inventories are not heavy. It is reasonable to believe that there will be some improvement in business during the coming year.

Your Company has continued as heretofore the practice of having its own force of traveling auditors make periodic visits to and examinations of its subsidiary and affiliated companies and in addition, Messrs. Price, Waterhouse & Company visit and examine the accounts of a number of different subsidiary and affiliated companies each year.

MARK W. CRESAP
President and Chairman of the Board

HART SCHAFF
A NEW YORK
BALANCE SHEET—N

Assets

Current Assets

Cash	\$1,028,896.08	
Notes and accounts receivable (less reserves), including receivables from subsidiary and affiliated companies covered by net quick assets	3,524,142.22	
Inventories of materials and finished and partly finished merchandise on hand and in transit, at cost or market whichever is lower for current season's merchandise, and estimated realizable values for past seasons' merchandise	1,319,702.82	
Sundry accounts—including \$15,245.92 due by employees	<u>50,423.93</u>	\$5,923,165.05

Investments In and Non-Current Advances to Subsidiary and Affiliated Companies and Others (Less Reserves)

of which \$1,297,574.74 is represented by net quick assets of such companies	1,866,374.12
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Company's Capital Stock held in Treasury

4,930 shares at par	\$98,600.00	
2,035 shares at cost	<u>76,264.40</u>	174,864.40

Shop Equipment and Fixtures, and Office Furniture

At cost	\$1,203,481.74	
Less—Depreciation reserve	<u>972,237.85</u>	231,243.89

Deferred Charges

Prepaid factory rentals, unamortized portion of remodeling and moving expenses, prepaid insurance, supplies, etc.	177,273.58
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Goodwill, Trade Names and Trade Marks

At record value	<u>1.00</u>
	<u><u>\$8,372,922.04</u></u>

NER & MARX

CORPORATION

NOVEMBER 30, 1938

Current Liabilities		Liabilities	
Accounts payable		\$108,435.27	
Liability for goods in transit		76,005.71	
Accrued salaries and wages		89,701.64	
Accrued Federal, State and Local taxes (less cash of \$31,626.22 deposited in escrow to cover payment of real es- tate taxes)		<u>93,858.37</u>	\$ 368,000.99
Capital Stock			
Common — Authorized and issued — 150,000 shares of \$20.00 each			3,000,000.00
Capital Surplus			1,803,712.61
Earned Surplus			
Per accompanying statement			<u>3,201,208.44</u>
			<u>\$8,372,922.04</u>

HART SCHAFFNER & MARX

A NEW YORK CORPORATION

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR FISCAL YEAR ENDING NOVEMBER 30, 1938

Loss of parent company for the year

after manufacturing, marketing and administrative expenses, provisions for depreciation of equipment, compensation adjustment, Federal surtax of \$5,600.00 and credit in respect of variation in intercompany profit in inventories of subsidiary companies, but before including dividends received on investments in subsidiary and affiliated companies and adjustment of reserves against investments

\$ 119,220.94

Add:

Adjustment of \$329,181.85 in reserves against investments in capital stocks of certain subsidiary and affiliated companies, less dividends of \$143,266.00 received from subsidiary and affiliated companies

185,915.85

(Note: The parent company's portion of the losses of all of its subsidiary and affiliated companies for the year was \$196,465.93)

Loss for the year carried to earned surplus

\$ 305,136.79

Earned Surplus at November 30, 1937

\$3,474,504.75

Add:

Net reduction of reserves, provided in prior years to estimated requirements at November 30, 1938

31,840.48

\$3,506,345.23

Earned Surplus at November 30, 1938

\$3,201,208.44

Report of Accountants

To the Stockholders of

Hart Schaffner & Marx:

We have made an examination of the balance sheet of Hart Schaffner & Marx as at November 30, 1938 and of the statement of profit and loss and earned surplus for the fiscal year ending on that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

We also made examinations of the financial statements of a selected number of the subsidiary and affiliated companies as at July 31, 1938. In addition, we have been furnished with financial statements of all of the subsidiary companies as at November 30, 1938, certified by officers thereof, supported by certificates covering bank balances, detailed lists of receivables and particulars of inventories, and these statements and other supporting data were subjected to our review for the purpose of substantiating the correctness of the information furnished to us.

The accompanying balance sheet sets forth the assets and liabilities of the parent company. The investments in and non-current advances to subsidiary and affiliated companies are stated as such on the balance sheet, after deducting therefrom reserves provided in respect of net reductions in the net worth of certain of these companies from the date of acquisition of such investments to November 30, 1938. The portion of the indebtedness of subsidiary and affiliated companies, which is represented by net quick assets, is included in the current assets.

In our opinion, based upon such examination and review and upon explanations furnished to us, the accompanying balance sheet and related statement of profit and loss and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at November 30, 1938 and the results of its operations for the year.

PRICE, WATERHOUSE & CO.

CHICAGO,

January 16, 1939.

